



Office of Internal Audit Monthly Internal Control Tip

If your department, agency, or area doesn't have the resources available to maintain proper segregation of duties, explore the use of compensating controls.

An important element of internal control is the segregation of certain key duties. Adequate segregation of duties reduces the risk of errors and fraud by providing for separate processing by different individuals at various stages of a transaction. However, departments may not be able to achieve segregation of duties due to having a small department or staff vacancies. When segregation of duties is not feasible or cannot be addressed timely, management should implement compensating controls. Compensating controls are controls that are designed to satisfy the requirement of some other control that is deemed too difficult or impractical to implement. Examples of compensating controls related to segregation of duties are:

- **Transaction Review** - Management, on a periodic basis, should select a sample of transactions and supporting documentation to ensure accuracy and completeness.
- **Analytical Review** - Management should compare and analyze trends (e.g. budget vs. actual; current year vs. previous year expenditures).
- **Job Rotation** - If possible, rotating employees between job functions reduces the ability for employees to engage in questionable activities.
- **Exception Report** - Employees should document any exception to policies and procedures to the next level supervisor.
- **Supervisor Review** - When using compensating controls, management should increase the amount of monitoring of activities. Supervisory monitoring can include observations, inquiries, surprise cash counts or internal audits.

For more information on segregation of duties click [here](#).

This tip is brought to you by the Office of Internal Audit. Previous Monthly Internal Control Tips can be found on the Office of Internal Audit's webpage, located [here](#).